

APPENDIX F

February 28, 2002 Memorandum of Agreement Between Alyeska and the Joint Pipeline Office

**AGREEMENT
BETWEEN
JOINT PIPELINE OFFICE
AND
ALYESKA PIPELINE SERVICE COMPANY**

February 28, 2002

In the matter of continuous improvement
Of the Alyeska compliance systems, quality program, change management
And corrective action processes.

Whereas, the Alyeska Pipeline Service Company (APSC), as agent of the Owners of the Trans Alaska Pipeline System (TAPS), operates the pipeline system subject to an agreement and grant of right of way entered into between the pipeline owners and the Department of Interior, effective January 23, 1974 under authority of Trans-Alaska Pipeline Authorization Act, 87 Stat, 853 (1973) ("TAPAA"), the Mineral Leasing Act, §185, the TAPS ROW;

Whereas, the pipeline is subject to the State of Alaska ROW Lease issued May 1974 under AS.38.35, issued for a thirty-year term;

Whereas, certain Federal and State of Alaska agencies have created a joint pipeline oversight office, hereafter called Joint Pipeline Office (JPO);

Whereas, the Department of Interior, through the Authorized Officer, and the State of Alaska, through the State Pipeline Coordinator, through the JPO, are required to make decisions regarding the safe operation of the pipeline system;

Whereas, to meet its business objectives and its commitment in Sections 9 and 16 of the Grant and Lease respectively, Alyeska maintains a Quality program (QA 36) and has recently obtained approval from the JPO for Revision 10;

Whereas, this document identifies corrective and preventive actions that will address, resolve and close Grant and Lease deficiencies concerning timeliness of document revision (Stipulations 1.18.3) and adequacy of change management (Stipulation 1.21.1) cited in the Operations and Maintenance CMP Reports of 1999 and 2001.

Whereas, numerous JPO oversight processes and Alyeska assessment processes (including but not limited to the closure process for AAI 1955 and the JPO's Comprehensive Monitoring Program) have identified a need to improve the quality program, change management, corrective action processes and other management processes that pertain to Grant and Lease compliance;

Whereas, the parties to this agreement wish to consolidate Alyeska's response to these oversight and assessment processes and to identify a single path forward, using continuous improvement;

Whereas, Alyeska has incorporated language in QA 36 Revision 10 to clarify the role for the quality program in grant and lease compliance, change management and corrective actions;

Whereas, Alyeska has made significant progress improving these processes and is committed to continuing that improvement;

Whereas, the parties agree that the JPO has approved QA 36 Rev. 10 and will close AAI 1955 in reliance on the commitments made in this agreement:

Therefore, to accomplish these results, and in particular to maintain compliance and improve the systems and processes Alyeska uses to assure compliance, the parties (JPO and APSC) agree as follows:

On December 14, 2001, the JPO approved Revision 10 of QA 36. Revision 10 clarifies the role of the Quality Program in assuring Grant and Lease compliance, including but not limited to effective change management and an effective corrective action program.

The Bureau of Land Management and the Alaska Department of Natural Resources provided Alyeska with their interpretations of the Grant and Lease requirements by February 28, 2002. Alyeska will complete and publish its Grant and Lease compliance manual ("GL 2") and an associated compliance process by April 15, 2002. Alyeska will train appropriate Alyeska and contractor personnel in GL2 and the compliance process by August 1, 2002.

By the end of December 2001 an Alyeska systems renewal team identified improvements to the TAPS regulatory compliance process. By March 31, 2002 Alyeska will review with the JPO Alyeska's improvement plan that results from this team's recommendations. By April, Alyeska will provide the JPO its final plan for improvement actions and schedule.

In order to create a basis for closing AAI 1955 and identifying future continuous improvement activities related to those issues, during November and December 2001 and January 2002 the parties conducted a joint audit of the results of Alyeska's processes that manage change of TAPS hardware. At the present time, the JPO has determined that the Stipulation 1.18.3 compliance standard for timely update of drawings and documents for critical systems is 180 days. If, based on data from the audit, Alyeska believes that a different standard is appropriate, Alyeska will request the JPO to agree to a change in the compliance standard.

By April 15, 2002, an Alyeska Systems Renewal Team will review Alyeska's corrective action process and identify additional improvements that will increase the efficiency and effectiveness of the current process. These improvements will also support closure of the two remaining findings from the March 9, 2000, Alyeska special review on the Corrective Action Process, SR# 00-03.

Following identification of these improvements, Alyeska will use its best efforts to obtain JPO agreement with the improvement plan and implementation schedule, as it relates to compliance with Stipulation 1.18.1 of the Grant and Lease for the TAPS Right of Way. Alyeska agrees that:

- The corrective action process will use a risk-based prioritization standard (including Grant and Lease compliance and risks to safety, the environment and TAPS integrity) that will appropriately distinguish deficiencies and focus management attention on timely implementation of corrective actions.
- The corrective action process will be compatible with other key work processes developed by Systems Renewal.
- The process will include trending of corrective actions.
- The process will use categorization methods that are compatible with the Grant and Lease of ROW agreements.
- The process will include JPO notification twice per year of corrective actions on critical items (as defined by the interpretation for Stipulation 1.18.1) that are either deferred beyond their initial due date or are not funded.

Until development and implementation of the improvements that relate to compliance with Stipulation 1.18.1, Alyeska agrees that it will notify the JPO if a funded corrective action on a system (as defined in the draft Interpretation for Stipulation 1.18.1) becomes unfounded. Alyeska also agrees that the standardized prioritization developed during this effort will be applied to the 2003 budget.

The interface between the Management of Improvement and Corrective Actions and budgeting processes is included in the scope of the effort. The budgeting process itself will be addressed later as part of ongoing system renewal work.

Alyeska Pipeline Service Company

S/s Dan Hisey
By: Dan Hisey
Chief Operating Officer

2/28/02
Date

Federal Authorized Officer

S/s Jerry Brossia
By: Jerry Brossia

030602
Date

State Pipeline Coordinator

S/s John Kerrigan
By: John Kerrigan

3/6/02
Date